

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MARTIN GAS, INC. FOR )	
AUTHORITY TO ADJUST RATES AND TO )	CASE NO. 90-402
EXTEND CURRENT SURCHARGE )	

O R D E R

On December 5, 1990, Martin Gas, Inc. ("Martin") filed an application seeking an increase in rates charged for natural gas service. The Commission suspended Martin's proposed rates for 5 months until June 4, 1991. The proposed rates would generate approximately \$54,599 or a 22.6 percent increase in annual revenues. Intervention was requested and granted by the Commission to the Attorney General's office, Utility and Rate Intervention Division, and the city of Martin, Kentucky.

On May 1, 1991, the Commission's Staff issued its Report recommending an increase in annual revenues of \$12,584, an increase of 5.05 percent. In its June 3, 1991 Order, the Commission found it desirable to hold a prehearing conference for the discussion of possible settlement and simplification of the issues. The Commission's June 10, 1991 Order established the conference date of June 18, 1991. Although settlement negotiations were begun at the conference, a final settlement of this case was not achieved. A public hearing was held on August 30, 1991.

During the public hearing, Martin disagreed with three specific provisions of the May 1, 1991 Staff Report. First, Martin stated that the Staff had not incorporated the entire cost of Martin's system reconstruction. The system reconstruction affected the proposed adjustments to depreciation expense, property taxes, and interest on long-term debt. The Staff had utilized an estimated system reconstruction cost of \$241,274, based on the information available at the time the Staff Report was prepared. On June 28, 1991, Martin filed additional documentation which showed the actual system reconstruction cost to be \$252,274. At the August 30, 1991 hearing, Staff recommended that the actual system reconstruction cost be used in determining the adjustments to depreciation expense, property taxes, and interest on long-term debt.<sup>1</sup> The use of the actual system reconstruction cost results in an increase in operating expenses of \$1,423<sup>2</sup> above the amount included in the Staff Report. After reviewing the Staff Report and the information filed by Martin, the Commission finds it reasonable to accept the \$1,423 in increases recommended by Staff at the public hearing.

The second issue raised by Martin concerned the rate case expense included in the Staff Report. The amount for rate case expense included in the Staff Report was based on information filed by Martin on February 8, 1991. At the August 30, 1991

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<sup>1</sup> Transcript of Evidence ("T.E."), August 30, 1991, pages 48 and 49.

<sup>2</sup> Depreciation expense increase of \$636, Property tax increase of \$127, and Interest on long-term debt increase of \$660.

hearing, Martin indicated that it had filed information concerning additional rate case expenses on June 28, 1991, and that it had incurred additional expenses since the June filing. On September 6, 1991, Martin filed information concerning the additional rate case expenses incurred since the June 28, 1991 filing. At the August 30, 1991 hearing, Staff recommended that rate case expenses determined to be reasonable should be afforded the same treatment as was recommended in the Staff Report for these expenses and included in the adjustment to rate case expense.<sup>3</sup> After reviewing the Staff Report and the information filed by Martin, the Commission finds it reasonable to increase the allowed rate case expenses by \$3,212, to be amortized over the three year period of time recommended in the Staff Report.

Finally, Martin did not agree with the Staff's recommendation against an extension of the current \$3.12 surcharge. Martin stated that an extension of the surcharge for six months was necessary in order for Martin to recover funds taken from its general funds to make payments on its first phase reconstruction loan. The surcharge is scheduled to expire January 31, 1993. The Staff Report recommended against extending the surcharge, citing four specific reasons. First, the surcharge was not established to guarantee the full repayment of the first phase reconstruction loan. Second, Martin could not identify the actual amount of any shortfall in surcharge collections. Third, in its monthly reports

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<sup>3</sup> T.E., August 30, 1991, page 48.

to the Commission, Martin had indicated that it had used the first two years' surcharge revenues to pay current operating expenses. Finally, it was too early to request an extension of the surcharge in this proceeding. After reviewing the Staff Report and the record in this case, the Commission finds for the reasons enumerated in the Staff Report that it is not appropriate to extend the \$3.12 surcharge at this time. Nothing herein shall preclude Martin from petitioning the Commission for an extension of the surcharge closer in time to its expiration date.

After a review of the record in this proceeding, the Commission finds that the other non-contested rate-making recommendations contained in the Staff Report are reasonable and should be adopted by the Commission. The use of the operating ratio method as suggested in the Staff Report is the reasonable methodology to use in determining the revenue requirements of Martin. The Commission finds that the use of an 88 percent ratio on the operating costs above normal gas purchases as recommended in the Staff Report is reasonable for Martin. The application of the operating ratio method produces an increase in revenues of \$17,761, an increase of 7.1 percent over normalized test-year operating revenues. The Commission believes this increase in revenues will provide adequate rates to allow Martin to have sufficient cash flow to meet its operating expenses and provide for reasonable equity growth.

#### SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The recommendations and findings contained in the Staff Report are supported by the evidence of record, are reasonable, and are hereby adopted as the findings of the Commission in this proceeding, subject to the exceptions noted herein, and are incorporated by reference as if fully set out herein.

2. Martin should be granted rates which would produce additional operating revenues of \$17,761. The increase will result in gross annual operating revenues, based on the adjusted test year, of \$267,179.

3. The rates in Appendix A, attached hereto and incorporated herein, are the fair, just, and reasonable rates for Martin and are designed to produce the increase of \$17,761 granted herein. These rates will allow Martin sufficient revenues to meet its operating expenses, service its debt, and provide for future equity growth. However, since the gas rates reflect Martin's most recent purchased gas adjustment,<sup>4</sup> the gross operating revenues produced by the rates in Appendix A will differ from the amount stated herein.

IT IS THEREFORE ORDERED that:

1. The rates in Appendix A are approved for service rendered by Martin on and after the date of this Order.

2. Within 30 days from the date of this Order, Martin shall file with this Commission its revised tariff sheets setting out the rates approved herein.

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<sup>4</sup> Case No. 10204-G, Notice of Purchased Gas Adjustment Filing of Martin Gas, Inc., Order dated March 11, 1991.

Done at Frankfort, Kentucky, this 30th day of September, 1991.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

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Commissioner

ATTEST:

  
Executive Director

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-402 DATED 9/30/91

The following rates and charges are prescribed for the customers in the area served by Martin Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

#### Rates: Monthly

First 1 Mcf	\$6.73	Per Mcf
Over 1 Mcf	6.4850	Per Mcf

#### Minimum Bill

The minimum bill shall be	\$6.73
Temporary Surcharge	3.12

The base rate for the future application of the purchased gas adjustment of Martin Gas, Inc. shall be:

#### Commodity

Columbia Gas of Kentucky, Inc.	\$3.8552	Per Mcf
Southeastern Gas Company	0.140	Per Mcf